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UNCLAS FRANKFURT 007910

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E.O. 12958: N/A

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SUBJECT: GM's Opel Chief Sees More Job Cuts Despite Company Turnaround, Pent-Up Consumer Demand

SUMMARY

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1. (SBU) Opel (GM) Chairman Carl-Peter Forster is optimistic that the automaker can keep its market share growing but pessimistic about overall demand, profits, and the future of the German auto industry. Forster expects that Opel will be forced to announce another round of layoffs at its facility in Bochum (North Rhine-Westphalia). Germany will remain a leading auto producer, but many jobs will move to countries where labor cost is lower, particularly Eastern Europe. The Opel chairman faulted the German government and opposition for not offering a coherent economic vision that boosts consumer confidence.  
END SUMMARY.

2. (SBU) The CG met GM-Opel Chairman/CEO Carl-Peter Forster at Opel's headquarters in Ruesselsheim in the lead-up to the IAA show in Frankfurt (the world's largest auto show). Forster, who engineered Opel's remarkable turnaround starting in 2001 (increasing its market share from nine to 10.9 percent), fears a setback in the second half of 2003. The European car market has contracted three to four percent in the last four years and sales volume has fallen for all manufacturers. Opel now faces a strong Euro and the expensive launch of the new Astra model. Less volume and higher costs will likely translate into more layoffs, particularly at the Bochum plant in North Rhine-Westphalia. Worried about the economic situation, consumers continue to delay purchases and buy more basic cars (smaller engines and fewer accessories), reducing the profit margin per vehicle. Forster is "frustrated by the lack of political leadership .... There is so little on Schroeder's achievement list and the opposition makes it worse by creating greater confusion". Still, he expects the German car market to grow by five percent in 2004 because of pent-up demand (average vehicle age in Germany is now over seven years).

3. (SBU) Opel depends on European markets because it cannot export to the US in competition with parent GM. Forster rejects speculation that Opel would enter the US market: "GM's problem is not too few, but too many brands." Currently more decentralized than other producers, GM will more closely coordinate its brands in the future. Forster said GM never managed to create synergy between the US and German markets, adding that competitor Daimler-Chrysler's merger is not working well either because of the very different product lines. CG raised the issue of diesel engine technology; Forster said diesel passenger vehicles have a future in the US and could make a major contribution to reducing carbon-dioxide emissions. Opel made a strategic mistake in moving its diesel competence center to Japan and now lags behind competitors in Europe's diesel boom. GM/Opel are counting on their co-development/co-production with Fiat (the "Powertrain" alliance) to reduce costs and further expand market share in Europe.

4. (SBU) The drive to lower costs will mean that auto-sector jobs continue to migrate out of Germany. Forster noted that while Ford saves perhaps 20 percent by having a supplier park on its compound in Saarlouis (SW Germany), suppliers in Eastern Europe are up to 80 percent cheaper. Forster wondered why a public outcry ensued when Opel cut a few hundred jobs in Ruesselsheim, but the fact that suppliers have moved thousands of jobs to Eastern Europe attracts little attention. Forster praised Opel's German workforce who identify with Opel and seldom strike. "I prefer the sophisticated and well-educated workforce here who know what is going on in the company" through their participation (Mitbestimmung on Opel's supervisory board). Forster predicted, however, that labor has a tough road ahead because of EU integration and globalization. The brand identity and core competence for technology will remain German, but most value-added will migrate out of Germany. "Assembly will always remain where the markets are ... but assembly alone can be done by 300 employees," for instance at the new Porsche factory in Leipzig.

5. (SBU) COMMENT: For Opel's 40,000 employees in Germany -- and for the millions of Germans who depend on the

nation's auto production for their livelihood -- the future looks difficult despite the expected rebound in German demand for cars. END COMMENT.

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